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Office of the Legislative Auditor



State of Montana

Report to the Legislature

November 1994

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1994

Office of the Secretary of State

This report contains one recommendation related to cash management.

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1993 has been issued. Copies of the Single Audit Report can be obtained by contacting:

Office of the Legislative Auditor
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PO Box 201705
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STATE OF MONTANA



Office of the Legislative Auditor

STATE CAPITOL

PO BOX 201705

HELENA, MONTANA 59620-1705

406/444-3122

FAX 406/444-3036

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLETT
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

November 1994

To the Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Office of the Secretary of State for the two fiscal years ended June 30, 1994. This report contains one recommendation concerning cash management.

The office's written response to the audit recommendation is included in the back of the audit report. We thank the Secretary of State and his staff for their assistance and cooperation.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat".

Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1994

Office of the Secretary of State

Members of the audit staff involved in this audit were Geri Hoffman, Wayne Kedish, Glenn Jorgenson, and Paul O'Loughlin.

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Elected and Administrative Officials

Office of the Secretary of State	Mike Cooney	Secretary of State
	Doug Mitchell	Chief Deputy
	Garth Jacobson	Chief Counsel
	Gary Managhan	Fiscal Officer
	Louise Ross	Bureau Chief Business Services
	Kathy Lubke	Bureau Chief Administrative Rules
	Joe Kerwin	Bureau Chief Elections and Government Services
	Ed Eaton	Bureau Chief Records Management

Summary of Recommendations

The listing below serves as a means of summarizing the recommendations contained in the report, the office's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the office continue to improve its cash management process in order to comply with state law. 5

Office Response: Concur. See page B-4.

Introduction

Introduction

We performed a financial-compliance audit of the Office of the Secretary of State (office) for the two fiscal years ended June 30, 1994. The audit objectives were to:

1. Determine office compliance with applicable laws and regulations.
2. Make recommendations for improvements in the management and internal controls of the office.
3. Determine if the financial schedules present fairly the results of operations of the office for the two fiscal years ended June 30, 1994.
4. Determine the implementation status of prior audit recommendations.

This report contains one recommendation to the office. This recommendation addresses an area where the office can improve compliance with state law and regulations. Other areas of concern not having a significant effect on the successful operations of the office are not included in this report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations made in this report.

Background

The Office of the Secretary of State is established by Article VI, Section 1, of the Montana Constitution. Title 2, chapter 15, part 4, of the Montana Code Annotated (MCA) sets forth the Secretary of State's duties. The office files, maintains, stores, and preserves the permanent records of the state and certain public interest records of private citizens. The office publishes the Montana Administrative Register (MAR) and the Administrative Rules of Montana (ARM).

The Secretary of State serves as chief election officer for the state, and as such maintains uniformity in the application of the election laws and retains election records through the Elections Bureau within the office. In addition, the Secretary of State

Introduction

serves as a member of the Board of Land Commissioners and the Board of Examiners.

Currently, the office operates with eight of its employees exempt from the provisions of the statewide classification plan. For all of its functions, the Secretary of State had 37.3 authorized full-time equivalent employees during fiscal year 1993-94.

Prior Audit Recommendations

Prior Audit Recommendations

We performed the prior audit of the Office of the Secretary of State for the two fiscal years ended June 30, 1992. The report contained four recommendations. Three of the recommendations were implemented and one was partially implemented. The recommendation not fully implemented relates to cash management and is discussed on page 4 of this report.

Findings and Recommendations

Cash Management

The office collects fees ranging from \$.25 to \$1,000 for governmental services which include filing foreign and domestic corporate reports, trademarks, assumed business names, and documents related to the Uniform Commercial Codes. In fiscal year 1993-94, this revenue was approximately \$1.1 million.

As follow-up to a prior audit recommendation relating to cash management, we counted the amount of undeposited collections in the vault on two different occasions. In the first count, we found the vault contained 8 days of receipts totaling \$2,778 and in the second count we found 4 days of receipts totaling \$2,426. We also reviewed revenue transactions and noted four collection reports contained receipts ranging from \$10 to \$3,625 that were deposited from 2 to 50 days late. State law requires all moneys be deposited daily with the state treasurer when the accumulated amount of collections exceeds \$100 cash or total receipts are greater than \$500. At a minimum, deposits should be made at least weekly.

Office management said they have reorganized staff workloads to improve the timeliness of deposits. However, they cannot keep up with the daily volume of receipts. Office management also said they were considering the purchase of an automated cashiering and indexing system which would best utilize employee time and maximize office efficiency.

There has been significant improvement in cash management since the last audit but the office is still not in compliance with state deposit laws. Currently, the checks are not deposited until the filing is complete in case there is a problem with the filing. To accomplish daily depositing of all receipts the office should establish a process of logging receipts so the checks can be deposited as received rather than when the filing is complete. The receipts could be recorded in an uncleared collections account until the filing is complete and revenue sources determined. This process would allow the office to deposit receipts in accordance with state law.

Findings and Recommendations

Recommendation #1

We recommend the office continue to improve its cash management process in order to comply with state law.

Independent Auditor's Report & Agency Financial Schedules



STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
PO BOX 201705
HELENA, MONTANA 59620-1705
406/444-3122
FAX 406/444-3036

DEPUTY LEGISLATIVE AUDITORS:

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Performance Audit

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Office of the Secretary of State for each of the two fiscal years ending June 30, 1993 and 1994, as shown on pages A-5 through A-11. The information contained in these schedules is the responsibility of the office's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1 to the financial schedules, the office's financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the office's assets, liabilities, and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Office of the Secretary of State for each of the two fiscal years ending June 30, 1993 and 1994, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

A handwritten signature in black ink that appears to read "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

August 5, 1994

OFFICE OF THE SECRETARY OF STATE
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1994

	<u>General Fund</u> ¹	<u>Special Revenue Funds</u> ¹	<u>Enterprise Funds</u> ¹	<u>Internal Service Funds</u> ¹
FUND BALANCE: July 1, 1992	\$ 0	\$ 40,761	\$ 0	\$ 5,002
ADDITIONS				
<u>Fiscal Year 1992-93</u>				
Budgeted Revenue & Transfers In	1,317,982	192,773		342,745
Direct Entries to Fund Balance	40,000			56,194
Support From State of Montana	132,578			
Prior Year Revenue Adjustments		35		
Prior Year Expenditure Adjustments		3		
<u>Fiscal Year 1993-94</u>				
Budgeted Revenue & Transfers In		1,666,454	496,902	
Direct Entries to Fund Balance		27,478		45,241
Support From State of Montana	35,659			
Prior Year Expenditures	5,274			
Total Additions	<u>1,531,493</u>	<u>192,811</u>	<u>1,693,932</u>	<u>941,082</u>
REDUCTIONS				
<u>Fiscal Year 1992-93</u>				
Budgeted Expenditures & Transfers Out	1,481,184	182,876		338,660
Nonbudgeted Expenditures & Transfers Out				39,311
Prior Year Expenditure Adjustments	9,376			
Direct Entries to Fund Balance		20,000		
<u>Fiscal Year 1993-94</u>				
Budgeted Expenditures & Transfers Out	40,309		1,212,627	404,849
Nonbudgeted Expenditures & Transfers Out				12,686
Prior Year Expenditure Adjustments	167			
Prior Year Revenue Adjustments	457			
Direct Entries to Fund Balance		29,416		
Nonbudgeted Prior Year Expenditure Adjustments			63,784	8,675
Total Reductions	<u>1,531,493</u>	<u>232,292</u>	<u>1,276,411</u>	<u>804,181</u>
FUND BALANCE: June 30, 1994	\$ 0	\$ 1,280	\$ 417,521	\$141,903

¹ See note 4 on page A-11.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

OFFICE OF THE SECRETARY OF STATE
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE & ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1994

	<u>Licenses and Permits</u>	<u>Charges For Services</u>	<u>Miscellaneous</u>	<u>Sale of Documents, Merchandise</u>	<u>Total</u>
Fiscal Year 1993-94					
ENTERPRISE FUNDS					
Estimated Revenue	\$ 867,000	\$505,000	\$ 500	\$ 50,000	\$1,422,500
Actual Revenue	<u>1,041,078</u>	<u>519,316</u>	<u>1,498</u>	<u>104,562</u>	<u>1,666,454</u>
Collections Over (Under) Estimate	<u>\$ 174,078</u>	<u>\$ 14,316</u>	<u>\$ 998</u>	<u>\$ 54,562</u>	<u>\$ 243,954</u>
INTERNAL SERVICE FUNDS					
Estimated Revenue		\$330,000	\$ 500	\$100,000	\$ 430,500
Actual Revenue		<u>336,326</u>	<u>0</u>	<u>160,576</u>	<u>496,902</u>
Collections Over (Under) Estimate		<u>\$ 6,326</u>	<u>\$ (500)</u>	<u>\$ 60,576</u>	<u>\$ 66,402</u>
Fiscal Year 1992-93					
GENERAL FUND					
Estimated Revenue	\$ 879,000	\$346,000	\$ 2,000		\$1,227,000
Actual Revenue	<u>918,005</u>	<u>399,376</u>	<u>601</u>		<u>1,317,982</u>
Collections Over (Under) Estimate	<u>\$ 39,005</u>	<u>\$ 53,376</u>	<u>\$(1,399)</u>		<u>\$ 90,982</u>
SPECIAL REVENUE FUND					
Estimated Revenue				\$175,150	\$ 175,150
Actual Revenue				<u>192,773</u>	<u>192,773</u>
Collections Over (Under) Estimate				<u>\$ 17,623</u>	<u>\$ 17,623</u>
INTERNAL SERVICE FUNDS					
Estimated Revenue	\$280,000	\$ 500			\$ 280,500
Actual Revenue	<u>342,654</u>	<u>91</u>			<u>342,745</u>
Collections Over (Under) Estimate	<u>\$ 62,654</u>	<u>\$ (409)</u>			<u>\$ 62,245</u>

¹ See note 4 on page A-11.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

OFFICE OF THE SECRETARY OF STATE
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT & FUND
BUDGET & ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1994

	Business & Government, Service ¹	<u>Total</u>
PERSONAL SERVICES		
Salaries	\$ 740,458	\$ 740,458
Employee Benefits	<u>224,205</u>	<u>224,205</u>
Total	<u>964,663</u>	<u>964,663</u>
OPERATING EXPENSES		
Other Services	337,369	337,369
Supplies & Materials	61,825	61,825
Communications	87,785	87,785
Travel	13,897	13,897
Rent	83,679	83,679
Utilities	2,001	2,001
Repair & Maintenance	18,751	18,751
Other Expenses	3,807	3,807
Goods Purchased For Resale	<u>7,946</u>	<u>7,946</u>
Total	<u>617,060</u>	<u>617,060</u>
EQUIPMENT AND INTANGIBLE ASSETS		
Equipment	76,062	76,062
Total	<u>76,062</u>	<u>76,062</u>
TOTAL PROGRAM EXPENDITURES	<u>\$1,657,785</u>	<u>\$1,657,785</u>
GENERAL FUND		
Budgeted	\$ 377,179	\$ 377,179
Actual	<u>40,309</u>	<u>40,309</u>
Unspent Budget Authority	<u>\$ 336,870</u>	<u>\$ 336,870</u>
ENTERPRISE FUNDS		
Budgeted	\$1,238,721	\$1,238,721
Actual	<u>1,212,627</u>	<u>1,212,627</u>
Unspent Budget Authority	<u>\$ 26,094</u>	<u>\$ 26,094</u>
INTERNAL SERVICE FUNDS		
Budgeted	\$ 412,794	\$ 412,794
Actual	<u>404,849</u>	<u>404,849</u>
Unspent Budget Authority	<u>\$ 7,945</u>	<u>\$ 7,945</u>

¹ See note 4 on page A-11.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

OFFICE OF THE SECRETARY OF STATE
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES
BY OBJECT & FUND - BUDGET & ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1993

	<u>Business & Government Service</u>	<u>Administrative Code</u>	<u>Records Management</u>	<u>Total</u>
PERSONAL SERVICES				
Salaries	\$ 441,228	\$ 81,227	\$ 174,432	\$ 696,887
Employee Benefits	<u>115,895</u>	<u>21,706</u>	<u>48,465</u>	<u>186,066</u>
Total	<u>557,123</u>	<u>102,933</u>	<u>222,897</u>	<u>882,953</u>
OPERATING EXPENSES				
Other Services	251,446	60,222	9,926	321,594
Supplies & Materials	88,793	2,150	27,364	118,307
Communications	68,671	10,109	4,291	83,071
Travel	10,384	132	1,907	12,423
Rent	30,233	4,817	47,292	82,342
Utilities			1,391	1,391
Repair & Maintenance	7,245	767	5,030	13,042
Other Expenses	3,199	155	625	3,979
Goods Purchased For Resale			7,937	7,937
Total	<u>459,971</u>	<u>78,352</u>	<u>105,763</u>	<u>644,086</u>
EQUIPMENT AND INTANGIBLE ASSETS				
Equipment	<u>8,870</u>	<u>1,591</u>	<u>10,000</u>	<u>20,461</u>
Total	<u>8,870</u>	<u>1,591</u>	<u>10,000</u>	<u>20,461</u>
LOCAL ASSISTANCE				
From State Sources	<u>455,220</u>			<u>455,220</u>
Total	<u>455,220</u>			<u>455,220</u>
TOTAL PROGRAM EXPENDITURES	<u>\$ 1,481,184</u>	<u>\$ 182,876</u>	<u>\$ 338,660</u>	<u>\$ 2,002,720</u>
GENERAL FUND				
Budgeted	\$ 1,818,153			\$ 1,818,153
Actual	<u>1,481,184</u>			<u>1,481,184</u>
Unspent Budget Authority	<u>\$ 336,969</u>			<u>\$ 336,969</u>
SPECIAL REVENUE FUND				
Budgeted	\$ 184,156			\$ 184,156
Actual	<u>182,876</u>			<u>182,876</u>
Unspent Budget Authority	<u>\$ 1,280</u>			<u>\$ 1,280</u>
INTERNAL SERVICE FUNDS				
Budgeted	\$ 359,286			\$ 359,286
Actual	<u>338,660</u>			<u>338,660</u>
Unspent Budget Authority	<u>\$ 20,626</u>			<u>\$ 20,626</u>

¹ See note 5 on page A-11.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 1994

Summary of Significant Accounting Policies

Basis of Accounting

The Office of the Secretary of State uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental Funds. In applying the modified accrual basis, the office records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable.

State accounting policy also requires the office to record the cost of employees' annual leave and sick leave when used or paid.

The office uses accrual basis accounting for its Proprietary Funds. Under the accrual basis, as defined by state accounting policy, the office records revenues in the accounting period earned, if measurable, and records expenses in the period incurred, if measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the office received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustment. Accounts are organized in funds according to state law. The office uses the following funds:

Notes to the Financial Schedules

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund. In fiscal year 1992-93, the office recorded the activity for business and government service bureau and elections bureau in the General Fund. In fiscal year 1993-94, the activity in this fund relates only to the administration of the Elections Bureau.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. In fiscal year 1992-93, the office recorded the activity for the sales of the Administrative Rules of Montana (ARM) and Montana Administrative Register (MAR) in the Special Revenue Fund. In fiscal year 1993-94, this activity was moved to the Internal Service and Enterprise funds.

Proprietary Funds

Enterprise Fund - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate. In fiscal year 1993-94, Enterprise Funds include the sales of ARMs and MARs to the public, and the activity for business and government services such as filing annual reports and articles of incorporation.

Internal Service Fund - to account for goods or services provided to other agencies or departments on a cost-reimbursement basis. The office records the activity for records management, and in fiscal year 1993-94 the sales of ARM and MAR to governmental agencies, in the Internal Service Fund.

2.

Annual and Sick Leave

Employees at the office accumulate both annual and sick leave. The office pays employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in accompanying financial schedules. The office absorbs expenditures for termination pay in its annual operational costs. At June 30, 1994, the office had a liability of \$85,916.

Notes to the Financial Schedules

3. General Fund Balance

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero.

4. Funding Change

Chapter 411, Laws of 1993, allowed the Office of the Secretary of State to change the configuration of its accounting records in order to bring the funding structure into compliance with accounting principles. The office operates like a business and as such, needs to have a funding structure that allows the office to determine if it is making a profit. The Proprietary Funds are more appropriate for this purpose than the General Fund and the Special Revenue Fund. The Office of the Secretary of State made the following changes as a result of this new law:

- A. In fiscal year 1993-94, the General Fund contained funding only for the administration of elections. All other activity previously accounted for in the General Fund and Special Revenue Fund was transferred to an Enterprise Fund or Internal Service Fund as determined appropriate. The majority of direct entries to fund balance are related to this funding change. See note 1 for a description of the functions accounted for in each fund.
- B. The Administrative Code and Records Management programs were combined into the Business and Government Services program in fiscal year 1993-94.

5. Special Election Expenditures

Chapter 546, Laws of 1993, appropriated the Office of the Secretary of State \$846,156 of General Fund money for the administration of the special election related to the sales tax. In fiscal year 1992-93, the office had \$509,776 of expenditures, which includes \$455,220 passed through to local governments to cover local costs.

Agency Response

**SECRETARY OF STATE
STATE OF MONTANA**

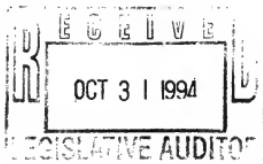


**Mike Cooney
Secretary of State**

**Montana State Capitol
PO Box 202801
Helena, MT 59620-2801**

October 31, 1994

Mr. Scott Seacat
Legislative Auditor
Post Office Box 201705
Helena, Montana 59620



Dear Mr. Seacat:

Pursuant to your letter of October 17, 1994, please find attached this office's official response to the recommendations made in the Financial-Compliance Audit conducted by your office.

Once again, you and your staff have performed the often difficult task of auditing a state agency with courtesy and professionalism. Please extend my personal thanks to everyone involved in this audit. I am convinced that the results of the audit help make this agency in particular and state government in general more efficient and fiscally responsible.

I hope that the response I have attached will meet your specifications for inclusion in the final report and I trust that you will not hesitate to contact me whenever I can be of service.

Sincerely,

A handwritten signature in black ink that reads "Mike Cooney". The signature is written in a cursive style with a large, stylized "C" at the beginning.

Enclosure

MC:dm 42.165

B-3

Reception: (406) 444-2034 - Business Services Bureau: 444-3665 - Elections Bureau: 444-4732
Administrative Rules Bureau: 444-2055 - Records Management Bureau (1320 Bozeman Avenue): 444-2716
Fax: 444-3976

Recommendation #1

We recommend the office continue to improve its cash management process in order to comply with state law.

AGENCY RESPONSE: WE CONCUR

While the cash management procedures utilized by this office have improved, we recognize the need to make further improvements in this area in order to comply with state law.

Our efforts in this regard are two fold. First, we will be asking the legislature for authority to upgrade our current computer system. Our current system, built in the 1970's does not allow for cash transactions to be logged when the transaction is posted on the computer. Instead, a separate system is used to track the cash once it is separated from the document in question. This two-tiered procedure causes a delay that is no longer necessary given the technology available today. Design of this system will begin January 1, 1995 and the system should be operational by July 1, 1996 if the program is fully funded by the 1995 legislature.

Second, this office will seek interim solutions to alter our cash processing to further improve our daily deposit mechanism. Since this audit we have implemented a twice daily deposit policy which has created a more predictable and consistent work flow.

Through these two efforts it is this office's position that we can be in compliance with state law during the coming biennium.

